# MEDICAL RECORDS FREED FROM THE CONSTRAINTS OF TIME AND SPACE

cmi

COMPREHENSIVE MEDICAL INTELLIGENCE INC.

# Corporate Profile

**Comprehensive Medical Intelligence Inc. (CMI) is a technology company operating in the field of electronic health-care records.**

The Company was listed as an Alberta Stock Exchange (ASE) Junior Capital Pool on April 1, 1998 and completed its major transaction on August 27, 1998. Public trade in its shares on the ASE commenced on September 17, 1998, under the symbol CMY.

The Company's major transaction was the purchase of a software company named User's Choice, which brought an existing product line of electronic billing and scheduling programs for a variety of health-care professions, and a roster of just under 1,000 customers into the company.

It is widely known that Microsoft Windows is the operating system of choice on the kinds of computer systems most widely used by health care practitioners and clinics. For that reason, the DOS-based User's Choice products have been discontinued. Research and development activities commenced in October of 1998, and since February, 1999 have focused on designing a series of program modules that will run in Windows, to be marketed under the brand name Savanta.

The first module is Savanta Practice Manager, an interdisciplinary health-care billing and scheduling program which offers more features than the User's Choice products, and is intended to replace them. Installations will commence in late August, 1999.

The second module will be Savanta EPR. The company's development staff are now designing a Windows version of a medical records program purchased from Iris Borgas, who is Vice President of the Company. This program had a history of success and widespread acceptance in Germany during the late 1980's. Company management feel it offers significant advances over anything else available in the North American marketplace.

This scheme of module-by-module program development has several advantages. The health-care records marketplace is diverse, and the needs of one segment differ significantly from the needs of others. By designing and releasing the program in modules, the company can offer prospective customers a set of core modules with only the additional "plug-ins" they need, and, importantly, can create cash flow well in advance of completion of the entire program,.

The Company directly employs three full-time programmers, who work in conjunction with a temporary staff of three contract programmers and a project leader. Sales and front-line customer contact are in the hands of two Business Development Managers, one Calgary-based and the other located in Edmonton. Both of these people come to CMI from successful careers in the pharmaceutical industry. An experienced marketer is implementing a marketing plan that will support their efforts and the sales force expansion that is to come. A senior business development executive, experienced in health-care technologies, joined the company July 22. Technical support, contractors, and administrative personnel bring the total to seventeen staff.

The Company operates a daysheet and electronic billing submissions business. This serves practitioners who must submit billing claims electronically to Alberta Health Care and the various Regional Health Authorities in Alberta, but who do not want to own and operate computerized billing systems of their own.

The Company also has an agreement with Unisys/Hewlett-Packard whereby CMI sells, and Unisys installs, Unisys/HP computers, printers, and other hardware bundled with CMI software. Medical professionals are familiar with the name Hewlett-Packard due to the dominance of HP instrumentation in clinical and research settings. The Unisys three-year, on-site maintenance warranty protects all CMI-supplied Unisys/HP hardware installations in Alberta, and is a significant benefit to CMI clients.

## Notice of Annual General Meeting

Shareholders are invited to the company's second Annual General Meeting, to be held at 2:30 p.m. on Tuesday, the fourteenth of September, 1999, at the Trophy Lounge of the Calgary Petroleum Club, 319 5th Avenue S.W. Shareholders who are unable to attend the meeting in person are requested to date, execute, and return the accompanying proxy materials

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**The end of the 20th century finds medical records technology mired in antiquated paper records systems. It is as though physicians and clinics, in a world of faxes and e-mail, ATM's and the burgeoning Internet, are still communicating with each using quill pens and the Pony Express.**

To some extent this is a reflection of the conservative values of much of the medical community, but it also arises from very serious misgivings about the current state of technology, issues of privacy, and the fact that no supplier has so far adequately addressed these misgivings and issues.

The problems of paper health-care records are well understood - medical records professionals report that up to 20% of a clinic's human resource time is devoted to record-keeping, yet more than 30% of patient records contain significant errors or omissions, or are illegible or mis-filed. This is not necessarily a danger to patients, because practitioners go to the trouble of finding missing information, but the hours squandered this way are a multi-billion dollar drain on the world health-care economy.

The solutions that seem obvious are not obvious at all, given the imperatives of privacy for health-care providers and consumers alike, and the cost and inherent impracticality of world-wide standards and gargantuan records collections on centralized database servers. Little actual real-world headway is being made, despite the fact that governments in North America and Europe are partnering with medical authorities to create electronic solutions to record-keeping problems.

For this impasse to continue is, of course, intolerable. In 1997 a group of far-sighted investors found, and seized, a novel way to take a leadership role in this process, and the result was the creation of ***Comprehensive Medical Intelligence Inc.*** (CMI) as an Alberta Stock Exchange (ASE) Junior Capital Pool, its subsequent purchase of User's Choice Data Management Technology Inc. as its major transaction, followed by full listing on the ASE.

We believe we have, in our hands, a technological breakthrough that has the power to revolutionize the economics of health-care record-keeping. This breakthrough has taken its place on the world stage, it will have the power to revolutionize the delivery of health care by literally freeing the patient's medical record from the constraints of time and space.

Our solution to the problem is embodied in a suite of software components that we are creating under the brand name ***Savanta***. In its first months of existence, CMI has begun the process that we expect will see us operating world-wide in just a few more years, using breakthrough technology that offers an inexpensive and practical alternative to the ideas currently being considered.

This report focuses on today, however, not on tomorrow. I am pleased to be able to report that our technology investments have begun to pay off; that our internal controls have allowed us to operate at costs significantly lower than what anyone would expect; and that our newly-created sales and marketing unit have begun establishing a professional market presence.

The figures presented in this annual report will show you that we have achieved the enviable position of having created a software breakthrough at a very low burn rate, and we expect from this point on to be generating profits for re-investment.

*We believe we have, in our hands, a technological breakthrough that has the power to revolutionize the economics of health-care record-keeping.*

## The Savanta Project

Savanta is the family name we have given to our modular health-care records system. During the period following the acquisition of User's Choice Software, CMI continued to sell and support the DOS-based User's Choice practice management and billing programs, which created sales revenue and provided the opportunity to pre-sell the Savanta system, and has generated a high degree of interest from practitioners in Alberta. By mid-August, 1999, sales of Savanta will have commenced in the form of its first module, Savanta Practice Management. Work has already begun on the second module, Savanta EPR, which will be the focus of the Savanta system. Further modules are planned to follow at approximately two-month intervals, thanks to the practice we have adopted of parallel module development.

## The Daysheet Business and Service Bureau

Many health-care practitioners prefer, for good reasons, not to bill Alberta Health Care (AHC) via their computer, but instead to submit claims on paper "daysheet" forms to an outside service, where the information is keyboarded and submitted electronically for them. The daysheet business is typically in the hands of home-based small-business operators, often relatives of the physician doing the billing.

Daysheet operators have a choice of two practical methods of electronic billing. The first is to submit through AHC's own "H-Link" portal, which requires a certain amount of expertise and is often impractical. The second is to submit through an independent service bureau, using software supplied by the service bureau.

When CMI acquired User's Choice, we acquired just such an in-house service bureau, which processes claims from submitters who are using the User's Choice software.

We also acquired an in-house daysheet billing service, which presently keyboards and submits claims for Calgary-area physicians.

We consider the daysheet business to be relatively stable, with little growth prospect. It is of interest because many physicians use daysheet submissions when they are starting their practices. It is important that CMI establish relationships with these physicians early in their careers, and sustain those relationships during the years while practices grow and through to the point at which the purchase of practice-management software becomes feasible.

## Outlook

Caution is necessary in assessing the future of any new business, and it is not the purpose in this report to suggest otherwise. But we believe the risks ahead of us are manageable, and the management team we have assembled is first-rate. As always, the best predictor of future behavior is past behavior, and the track record of CMI in its first year portends well.

Submitted on behalf of the Board of Directors

**W.E. Richards**
President and CEO

The Company has transacted substantial business since absorbing the business conducted by User's Choice in 1998. The following material transactions took place:

## Personnel

The Company's staff has been increased from two to seventeen. Management has been strengthened by the addition of four senior employees:

***David Foy*** has been retained as a Marketing Consultant. Mr. Foy brings to the company a business background which includes over twenty years of technology marketing, as well as senior management in technology and media-related businesses. A well-known consultant to the Canadian magazine publishing industry, he has expertise in database marketing, and a familiarity with medical issues and software development.

***Don Siler*** has been appointed Director of Business Development. Mr. Siler brings to the company more than 15 years of marketing and sales experience in Information Technologies. Don served as Vice President, Marketing and Corporate Relations at ACTC Technology for more than nine years. Don also served as Vice President of Administration for the Calgary Olympic Development Association, and as Vice President, Executive Operations, XV Olympic Winter Games Organizing Committee.

***Michele Poffenroth*** and ***David Coyes*** have been appointed Managers of Business Development. Ms Poffenroth and Mr. Coyes both come to CMI from a background in senior account management in the pharmaceutical industry, and have substantial experience in serving the needs of clinics and health-care practitioners. Ms Poffenroth is based in Calgary and is responsible for developing accounts in Southern Alberta. Mr. Coyes is based in Edmonton and represents the company in that part of Alberta north of Red Deer.

## Product development

The company has discontinued the former User's Choice billing and scheduling software and written a new program called Savanta Practice Management, which runs in Microsoft Windows and NT environments. Savanta Practice Management will be released for sale in the middle of August and will be ready for installation at client sites shortly thereafter. This is the first of a series of program modules to be marketed under the name Savanta, and released at approximately two-month intervals through the year 2000. The entire Savanta system will form a comprehensive patient record system which the company's management believes to be more advanced than any other system available in Canada.

## Financing

A private placement of 20 Limited Partnership units with a total value of $500,000 will be offered, primarily to our clients, during August.

Application is being made to the National Research Council for $500,000 in pre-commercialization assistance to help with development of forthcoming modules of the Savanta patient information system.

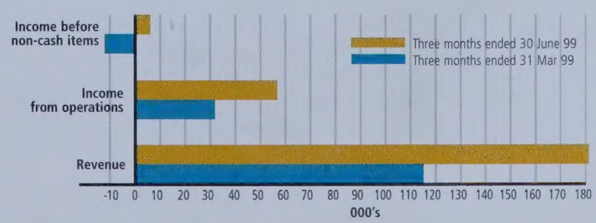
## Operating results

The first quarter of fiscal year 2000 has shown significant improvements over the previous quarter. Gross revenue has increased to $180,424 from $117,345, an increase of $63,079 (54%). Income from operations rose to $58,516 from $32,133, which is a $26,383 (82%) improvement. Recent changes in marketing strategy and product development will result in revenues and profits that can be expected to grow rapidly, but not necessarily at these rates.

Submitted on behalf of the Board of Directors

**W.E. Richards**
President and CEO

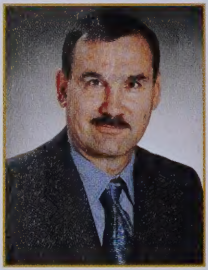
OPERATING RESULTS



# The People of CMI

Comprehensive Medical Intelligence Inc. is a small company positioning itself for significant growth. The flat management structure, appropriate for a small, entrepreneurial startup, is organized for growth in business volume, staff, and geographic spread. It is appropriate for the shareholders to meet some of the people who will drive that growth.

## Technical Support and Service Bureau



***Randy Skubovius***

***David Foret***

## Sales Support and Daysheets

***Tony Liblong***

***Andrea Colahan***
*(not pictured)*

## Administration

***Annette Crothers***
*reception and secretarial*

***Marilyn Gerber***
*accounting*

## Programming

***Eric Lui***

***Andrew Alaric***

## Sales and Marketing

***Michele Poffenroth***
*Market Development Manager*

***David Coyes***
*Market Development Manager*

***David Foy***
*Marketing Consultant*

## Executive and Board of Directors

***W.E. Richards***
*President and CEO*
*Director*

***Iris Borgas***
*Vice President*

***Don Siler***
*Director of Business Development*

***Marshall Copithorne***
*Director*

***Gerald Pulak***
*Secretary and Director*

***Susan Lea** M.D.*
*Director*

***Frederick Richards***
*(not pictured)*
*Director*

**COLLINS BARROW**
Chartered Accountants

Auditors' Report

To the Shareholders
Comprehensive Medical Intelligence Inc.

We have audited the consolidated balance sheets of Comprehensive Medical Intelligence Inc. as at March 31, 1999 and December 31, 1997 and the consolidated statements of loss and deficit and cash flow for the fifteen months ended March 31, 1999 and for the period from date of incorporation, May 30, 1997 to December 31, 1997. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 1999 and December 31, 1997 and the results of its operations and cash flows for the periods then ended in accordance with generally accepted accounting principles.

Collins Barrow

CHARTERED ACCOUNTANTS

Calgary, Alberta
July 21, 1999

| | March 31, 1999 | December 31, 1997 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and term deposits | $ 252,334 | $ 72,975 |
| Accounts receivable | 76,786 | 9,342 |
| Prepaid expenses | 9,344 | — |
| | 338,464 | 82,317 |
| Capital assets (note 4) | 18,673 | — |
| Client database, goodwill and other assets (note 5) | 912,832 | — |
| | $ 1,269,969 | $ 82,317 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 58,592 | $ 3,452 |
| Deferred revenue (note 6) | 11,143 | — |
| | 69,735 | 3,452 |
| **Shareholders' Equity** | | |
| Share capital (note 7) | 1,233,344 | 86,857 |
| Deficit | (33,110) | (7,992) |
| | 1,200,234 | 78,865 |
| | $ 1,269,969 | $ 82,317 |

Approved by the Board,

_____________, Director        _____________, Director

# CONSOLIDATED STATEMENTS OF LOSS & DEFICIT

Fifteen Months Ended March 31, 1999
*(with comparative figures for period from date of incorporation, May 30, 1997 to December 31, 1997)*

| | 1999 [note 3(a)] | 1997 |
|---|---|---|
| Revenue | | |
| Software support | $ 312,044 | $ — |
| Software sales | 75,062 | — |
| Other income | 38,253 | — |
| | 425,359 | — |
| Direct costs | 71,756 | — |
| Gross profit | 353,603 | — |
| Operating expenses | 204,006 | — |
| Administration expenses | 127,198 | 7,992 |
| | 331,204 | 7,992 |
| Income (loss) before amortization | 22,399 | (7,992) |
| Amortization | 47,517 | — |
| Net loss | (25,118) | (7,992) |
| Deficit, beginning of period | (7,992) | — |
| Deficit, end of period | $ (33,110) | $ (7,992) |
| Net loss per share (note 8) | $ (0.008) | $ (0.008) |

Fifteen Months Ended March 31, 1999
*(with comparative figures for period from date of incorporation, May 30, 1997 to December 31, 1997)*

| | 1999 [note 3(a)] | 1997 |
|---|---|---|
| Operating activities | | |
| Net loss | $ (25,118) | $ (7,992) |
| Add items not involving cash | | |
| Amortization | 47,517 | — |
| Cash flow from operations | 22,399 | (7,992) |
| Increase in accounts receivable | (67,444) | (9,342) |
| Increase in prepaid expenses | (9,344) | — |
| Increase in accounts payable and accrued liabilities | 55,140 | 3,452 |
| Increase in deferred revenue | 11,143 | — |
| | 11,894 | (13,882) |
| Financing activities | | |
| Issuance of share capital, net of issue costs | 1,146,487 | 86,857 |
| Investing activities | | |
| Acquisition of capital assets | (24,069) | — |
| Acquisition of day sheet service | (6,000) | — |
| Software development cost payments | (104,608) | — |
| Purchase investigation costs | (16,916) | — |
| Acquisition of client database and goodwill | (827,429) | — |
| | (979,022) | — |
| Cash inflow | 179,359 | 72,975 |
| Cash and term deposits, beginning of period | 72,975 | — |
| Cash and term deposits, end of period | $ 252,334 | $ 72,975 |
| Cash flow from operations per share (note 8) | $ 0.007 | $ (0.008) |

## 1. Nature of operations

Comprehensive Medical Intelligence Inc. was incorporated under the Business Corporations Act (Alberta) on May 30, 1997. The corporation is principally engaged in the business of providing information management services, transaction processing, software development and other computer solutions to medical and health practitioners.

## 2. Business combination

The corporation completed its major transaction by acquiring all of the issued and outstanding shares of User's Choice Data Management Technology Inc. ("User's Choice") effective April 1, 1998 for a total purchase price of $754,118.

User's Choice is in the business of providing information management services, transaction processing, software development and other computer solutions to medical practitioners.

The acquisition has been accounted for using the purchase method and the results of operations since acquisition have been included in these financial statements.

| | | |
|---|---|---|
| Net assets acquired: | | |
| Current assets | $ | 29,907 |
| Capital assets | | 8,704 |
| Client database and goodwill | | 827,429 |
| | | 866,040 |
| Less: Current liabilities | | 35,254 |
| | $ | 830,786 |
| Consideration paid: | | |
| Cash | $ | 254,118 |
| Issuance of common shares [note 7(e)] | | 500,000 |
| | | 754,118 |
| Acquisition costs | | 76,668 |
| | $ | 830,786 |

## 3. Significant accounting policies

*(1) Principles of consolidation*

The consolidated financial statements include the accounts of the corporation and those of its wholly-owned subsidiary, User's Choice Data Management Technology Inc. The operations of the subsidiary included in the consolidated statement of loss and deficit for the fifteen months ended March 31, 1999 are for the twelve months from acquisition date of April 1, 1998 to March 31, 1999.

*(2) Capital assets*

Capital assets are carried at cost. Amortization is provided on a basis designed to amortize the cost of the assets over their estimated useful lives at the following rates:

| | |
|---|---|
| Automobile | 30% straight-line |
| Computer hardware | 20% straight-line |
| Computer software | 20% straight-line |
| Office furniture and equipment | 10% straight-line |

*(3) Client database and goodwill*

Client database and goodwill represents the excess of cost over the book value of net assets of the corporation acquired in the major transaction. The client database and goodwill are amortized on a straight-line basis over twenty years. Related business activities and economic opportunities are reviewed periodically to determine whether any permanent impairment of the unamortized balance has occurred.

**(4) *Software research and development costs***

Costs related to the development of computer software programs are capitalized when technical and economic feasibility have been established. Research costs are charged to expense in the year in which they are incurred. Development costs will be amortized upon the commencement of sales over the expected life of the related software program. Sales for software under development are expected to commence in the 2000 fiscal year. Costs will be subject to periodic review to determine whether any permanent impairment of the unamortized balance has occurred.

**(5) *Day sheet service***

The rights to a day sheet service are being amortized on a straight-line basis over their expected useful life of 10 years. Costs will be subject to periodic review to determine whether any permanent impairment of the unamortized balance has occurred.

**(6) *Deferred income taxes***

Income taxes are accounted for by the deferral method of income tax allocation under which deferred income taxes are recognized for significant timing differences in the reporting of income and expenses for financial statement and tax purposes. Future income tax assets have not been recognized for non-capital losses carried forward as the corporation has not concluded that it is more likely than not that they will be realized.

**(7) *Revenue recognition***

Revenue from software support is recognized in the period when the service is provided.

Revenue from software sales and other income is recognized when the requirements as to performance are met and ultimate collection is reasonably assured.

**(8) *Investment tax credits***

The corporation's activities include continuous research for new computer software products and improvement of existing computer software products. Some of the costs associated with these activities qualify as scientific research and experimental development (SR & ED) expenditures for income tax purposes and are eligible for an investment tax credit equal to 20% of the qualifying expenditures, deductible against income taxes payable. Given the uncertainty as to the exact amount of SR & ED expenditures that will be approved by Revenue Canada, it is the corporation's policy to reflect investment tax credits in the financial statements in the period in which they are approved.

**(9) *Use of estimates***

The amounts recorded for client database, goodwill, software development costs and a day sheet service and the related amortization are based upon estimates. By their nature, these estimates are subject to measurement uncertainty and the effects on the financial statements of changes in these estimates could be significant.

## 4. Capital assets

| | | | Net Book Value | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | March 31, 1999 | December 31, 1997 |
| Automobile | $ 10,000 | $ 1,753 | $ 8,247 | $ — |
| Computer hardware | 9,223 | 2,018 | 7,205 | — |
| Computer software | 1,713 | 792 | 921 | — |
| Office furniture and equipment | 3,133 | 833 | 2,300 | — |
| | $ 24,069 | $ 5,396 | $ 18,673 | $ — |

## 5. Client database, goodwill and other assets

| | | | Net Book Value | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | March 31, 1999 | December 31, 1997 |
| Client database and goodwill | $ 827,429 | $ 41,371 | $ 786,058 | $ — |
| Software development costs | 104,608 | — | 104,608 | — |
| Day sheet service | 6,000 | 750 | 5,250 | — |
| Purchase investigation costs [note 14(b)] | 16,916 | — | 16,916 | — |
| | $ 954,953 | $ 42,121 | $ 912,832 | $ — |

## 6. Deferred revenue

Deferred revenue consists of annual software support fees received for services to be provided subsequent to March 31, 1999.

## 7. Share capital

Authorized

Unlimited number of common voting shares
Unlimited number of first preferred shares, issuable in series
Unlimited number of second preferred shares, issuable in series

| | March 31, 1999 | | December 31, 1997 | |
|---|---|---|---|---|
| | Number of Shares | Stated Value | Number of Shares | Stated Value |
| Issued | | | | |
| Common shares | | | | |
| Balance, beginning of period | 1,000,000 | $ 86,857 | — | $ — |
| For cash | — | — | 1,000,000 | 100,000 |
| For cash [note 7(a)] | 75,000 | 7,500 | — | — |
| Pursuant to a public offering [note 7(b)] | 1,500,000 | 300,000 | — | — |
| Exercise of stock options[note 7(b)] | 75,000 | 15,000 | — | — |
| Exercise of stock options [note 7(c)] | 225,000 | 45,000 | — | — |
| Private placement [note7(d)] | 812,500 | 325,000 | — | — |
| Consideration for major transaction [note 7(e)] | 500,000 | 500,000 | — | — |
| Less: Issue costs | | (46,013) | | (13,143) |
| Balance, end of period | 4,187,500 | $1,233,344 | 1,000,000 | $ 86,857 |

(1) On November 11, 1997, 25,000 common shares were issued to a director for cash of $2,500, which was received subsequent to December 31, 1997. On January 22, 1998, 50,000 common shares were issued to a director for cash of $5,000.

(2) The corporation filed its final prospectus on February 18, 1998, offering to the public 1,500,000 common shares at a subscription price of $0.20 per share for proceeds of $300,000 before agent's commissions of $30,000. The corporation has granted the agent an option to purchase up to 150,000 common shares at $0.20 per share until expiry 18 months following the date of listing of the common shares on The Alberta Stock Exchange. The agent has exercised 75,000 of the options.

(3) The corporation granted stock options to certain directors and officers of the corporation to purchase 225,000 common shares at $0.20 per common share. All 225,000 stock options were exercised in the year.

(4) On August 28, 1998, the corporation completed a private placement for 812,500 units at $0.40 per unit for proceeds of $325,000. Each unit consists of one common share and one warrant. Each warrant allows the holder to acquire one common share for $0.45, expiring August 28, 2000. The issued shares are not transferrable to the holder until August 28, 1999. Of the total, 272,500 of the units were acquired by directors or companies owned by directors of the corporation.

(5) As part of the consideration paid for the major transaction (note 2), 500,000 common shares were issued at a deemed price of $1 per share. Of the 500,000 common shares, 400,000 were deposited in escrow and are to be released on each of the first, second, and third anniversaries of the major transaction. The remaining 100,000 common shares were deposited in a performance escrow allowing for the release of one common share for each $0.20 in cash flow generated by User's Choice to a maximum of one-third of the escrowed common shares per year. At March 31, 1999, all of these shares remained in escrow.

(6) Under the requirements of the Alberta Securities Commission and The Alberta Stock Exchange, the 1,075,000 common shares issued before the public offering are to be held in escrow. The escrowed shares will be released, upon written consent of the Executive Director of the Alberta Securities Commission, as to one-third thereof on each of the first, second and third anniversaries of the completion of the corporation's major transaction.

(7) The corporation has established a stock option plan to allow key management personnel, directors and consultants of the corporation to purchase common shares of the corporation. On December 8, 1998, stock options for 105,000 common shares were granted at an exercise price of $0.40 per share. The stock options have a five year term from grant date, and are exercisable as to one-third thereof on each of the first, second, and third anniversary of grant date.

## 8. Net loss and cash flow from operations per share

The basic net loss per share and basic cash flow from operations per share are calculated using the weighted average number of shares outstanding during the fifteen months ended March 31, 1999 of 3,027,582. The corresponding figure for the period May 30, 1997 to December 31, 1997 was 1,000,000.

## 9. Commitments

The corporation has entered into equipment leases that require the following annual payments:

| | |
|---|---|
| 2000 | $ 18,170 |
| 2001 | 18,170 |
| 2002 | 15,268 |
| 2003 | 4,378 |

The corporation has entered into a lease for premises with annual payments of $6,864, expiring July 31, 2000.

## 10. Uncertainty due to the Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced prior to, on or subsequent to January 1, 2000. It is not possible to be certain that all aspects of the Year 2000 issue affecting the corporation, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved. Therefore, the corporation's ability to conduct normal business operations may be impacted. This impact may range from significant system failure to minor errors.

## 11 Income taxes

As at March 31, 1999, the corporation and its subsidiary have non-capital losses of approximately $53,390 available to reduce future taxable income which expire as follows:

| Expiry Date | Approximate Amount |
|---|---|
| 2004 | $ 9,548 |
| 2005 | 5,386 |
| 2006 | 38,456 |
| | $ 53,390 |

In addition, as at March 31, 1999, the corporation has Scientific Research and Experimental Development (SR & ED) expenditure pool deductions of approximately $27,000 available for indefinite carry-forward.

Of the total loss carry-forward and SR & ED expenditure pool deductions available, $61,000 has been recognized to the extent of reducing other timing differences which would give rise to deferred tax liabilities.

## 12. Related party transaction

The corporation paid $45,600 (December 31, 1997 - $4,500) for office rent and secretarial services to a corporation with common directors.

This transaction was in the normal course of operations and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 13. Financial instruments

*Fair values*

The fair value of the accounts receivable and accounts payable and accrued liabilities approximate their carrying values because of the short-term maturity of these items.

## 14. Subsequent events

(1) The corporation incorporated a wholly-owned subsidiary, CMY Software Inc., to act as a general partner for a newly formed limited partnership, CMY Software Partnership. The limited partnership will issue 100 units at $5,000 per unit, for a maximum offering of $500,000. The proceeds are to be used to provide services to the general partner in research, development and marketing computer software systems to and for use of the medical profession. In addition, the general partner shall have the right to repurchase the units after two years at the amount of the original price paid by the limited partners plus shares equal to that amount, with the shares valued at $5.00 per share.

A limited partner will have the right to convert its limited partnership interest to common shares of the corporation on the basis of one share for every $1.25 subscribed during the period of the first year after June 30, 1999, $1.75 during the second year after June 30, 1999 and $2.25 during the third year after June 30, 1999.

Up to July 21, 1999, no limited partnership units had been sold.

(2) On May 17, 1999, the Board of Directors exercised its option to purchase the rights to a computerized patient record system known as "Savanta" in exchange for 1,000,000 common shares of the corporation.

(3) On May 17, 1999, stock options for 145,000 shares were granted to the directors and a contractor of the corporation at an exercise price of $0.40 per share. The stock options have a five year term from grant date, and are exercisable as to one-third thereof on each of the first, second and third anniversary of grant date.

## 15. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

| Consolidated Statement of Cash Flow — Unaudited | 30 June, 1999 | 30 June, 1998 |
|---|---|---|
| Operating Activities | | |
| Net Loss | (4,378) | (7,157) |
| Amortization | 12,171 | |
| Cash Flow from Operations | 7,793 | (7,157) |
| Increase in Accounts Receivable | (1,952) | |
| Decrease in Prepaid Expenses | 166 | |
| Increase in Accounts Payable and Accrued Liabilities | 32,980 | |
| Increase(Decrease) in Deferred Revenue | (11,143) | |
| | 27,844 | (7,157) |
| Financing Activities | | |
| Issuance of Share Capital | - | 30,000 |
| Proceed of Private Placement Subscription | | 211,000 |
| Costs of Issuance | | (20,621) |
| | - | 220,379 |
| Acquisition of Capital Assets | (2,572) | - |
| Software Development Cost Payments | (56,715) | |
| Purchase of Inventory | (19,483) | |
| | (78,770) | - |
| Cash Inflow(Outflow) | (50,926) | 213,222 |
| Cash and Term Deposits, beginning of period | 252,334 | 313,195 |
| Cash and Term Deposits, end of period | 201,408 | 526,417 |

| Consolidated Statement of Loss and Deficit — Unaudited | Three months ended 30 June, 1999 | Three months ended 31 March, 1999 | Three months ended 30 June, 1998 |
|---|---|---|---|
| Revenue | | | |
| Software Support | 85,183 | 81,948 | |
| Software Sales | 18,945 | 11,710 | |
| Hardware Sales | 42,159 | 2,772 | |
| Other Income | 34,137 | 20,915 | |
| | 180,424 | 117,345 | |
| Direct Costs | 63,057 | 24,858 | |
| Gross Profit | 117,367 | 92,487 | |
| Less Operating Expenses | 58,851 | 60,353 | |
| Income from Operations | 58,516 | 32,134 | |
| General & Administration | (50,723) | (44,752) | (7,157) |
| Income(Loss) before Amortization | 7,793 | (12,618) | |
| Amortization | (12,171) | (12,034) | |
| Loss | (4,378) | (24,652) | (7,157) |
| Income(Deficit) at beginning of Period | (33,110) | 37,645 | (12,189) |
| Year End Adjustments | | (46,103) | |
| Retained Earnings(Deficit) end of Period | (37,488) | (33,110) | (19,346) |

# CORPORATE INFORMATION

## Corporate Head Office

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(403)266-1222 (voice)
(403)264-6244 (fax)

e-mail: cmy@cmy.ab.ca
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**Technical Services**
(403)247-0333, or 1-800-563-3211

## Board of Directors

**W.E. Richards**
**Marshall Copithorne**
**Susan Lea,** MD FCFP
**Gerald Pulak**
**Frederick Richards**

## Officers

**W.E. Richards**, President and CEO
**Iris Borgas**, Vice President
**Gerald Pulak**, Secretary

## Bankers

**First Calgary Savings**
Calgary, Alberta

## Auditors

**Collins Barrow**, Chartered Accountants
Calgary, Alberta

## Solicitors

**Bennett Jones**
Calgary, Alberta

## Transfer Agent and Registrar

**Montreal Trust Company of Canada**
Calgary, Alberta

## Stock Listing

**Alberta Stock Exchange**
Trading Symbol: CMY

### Year 2000 issues

Comprehensive Medical Intelligence Inc. (CMI) has completed a formal review of the software which it sells to clients, the software being developed for sale to clients, the software used internally for development and administration purposes, and the hardware presently in use at our facilities, with respect to how they can be expected to handle dates after December 31, 1999.

Software purchased from outside suppliers was reviewed by obtaining Y2K compliance information from vendors. Software developed internally was tested internally.

The result of this review has been the determination that the computer hardware used in CMI facilities performs correctly with system dates set after the turn of the century, and it correctly interprets the year 2000 as a leap year. It has also been determined that software currently sold has been suitably modified and is Y2K compliant. It was also found that certain software formerly sold to clients of the predecessor company User's Choice, but no longer sold, would not operate properly in some circumstances where date fields were expected to function with dates greater than December 31, 1999. Accordingly, those clients using that software were provided with upgrades that had been proven in extensive internal tests to be Y2K compliant. This process of upgrading client software was substantially complete by April 1, 1999, and will be fully complete by August 31, 1999.

The software being currently developed, along with the software development tools currently in use, and the software used for administrative purposes, all perform as they should when operating on hardware and operating-system environments which simulate dates in the period January 1, 1999 through December 31, 2002.

At this time CMI issues to customers a certificate of Y2K compliance with all software sold. CMI has contacted all of its significant suppliers who do not routinely provide similar certification, and has obtained their commitment with regards to Year 2000 readiness. While CMI remains to some small degree dependent on the performance of third parties and events that may be beyond its control, management considers such risk to be negligible.

Produced by Comprehensive Medical Intelligence
Designed by Two Birds, One Stone Design

COMPREHENSIVE MEDICAL INTELLIGENCE INC.

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